

Return on Investment (ROI) Program Funding Application

This template was built using the ITD ROI Submission Intranet application.

FINAL AUDIT REQUIRED: The Enterprise Quality Assurance Office of the Information Technology Department is required to perform post implementation outcome audits for all Pooled Technology funded projects and may perform audits on other projects.

This is a Pooled Technology Fund Request. Amount of funding requested: \$372,000.00

Section I: Proposal

Date: 7/24/2003
Agency Name: Department of Revenue
Project Name: Individual Income Tax Micro-simulation Model
Agency Manager: Michael Lipsman
Agency Manager Phone Number / E-Mail: (515) - / michael.lipsman@idrf.state.ia.us
Executive Sponsor (Agency Director or Designee): Michael Ralston

D. Statutory or Other Requirements

Is this project or expenditure necessary for compliance with a Federal law, rule, or order?

☐ YES (If "Yes", cite the specific Federal law, rule or order, with a short explanation of how this project is impacted by it.)

Explanation:

Is this project or expenditure required by state law, rule or order?

☒ YES (If "YES", cite the specific state law, rule or order, with a short explanation of how this project is impacted by it.)

Explanation:

Proposed legislation that will have more than a \$100,000 impact on State revenues or expenditures require a fiscal impact estimate. The formal responsibility for providing fiscal impact estimates rests with the Legislative Fiscal Bureau of the Legislative Services Agency. However, as a practical matter the information upon which such estimates are made must come from the Department of Revenue due to the confidentiality of tax return information.

Does this project or expenditure meet a health, safety or security requirement?

☐ YES (If "YES", explain.)

Explanation:

Is this project or expenditure necessary for compliance with an enterprise technology standard?

☐ YES (If "YES", cite the specific standard.)

Explanation:

[This section to be scored by application evaluator.]

Evaluation (20 Points Maximum)

If the answer to these criteria is "no," the point value is zero (0). Depending upon how directly a qualifying project or expenditure may relate to a particular requirement (federal mandate, state mandate, health-safety-security issue, or compliance with an enterprise technology standard), or satisfies more than one requirement (e.g. it is mandated by state and federal law and fulfills a health and safety mandate), 1-20 points awarded.

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E. Impact on Iowa's Citizens

a. Project Participants

List the project participants (i.e. single agency, multiple agencies, State government enterprise, citizens, associations, or businesses, other levels of government, etc.) and provide commentary concerning the nature of participant involvement. Be sure to specify who and how many **direct** users the system will impact. Also specify whether the system will be of use to other interested parties: who they may be, how many people are estimated, and how they will use the system.

Response:

Department of Revenue, Legislative Services Agency. Most of the database and software development will be the responsibility of the Department of Revenue. The role of the Legislative Services Agency will be to help specify the features that should be incorporated in the model, to provide direction on the design of user interfaces, and to test the model.

b. Service Improvements

Summarize the extent to which the project or expenditure improves service to Iowa citizens or within State government. Included would be such items as improving the quality of life, reducing the government hassle factor, providing enhanced services, improving work processes, etc.

Response:

All citizens of Iowa have an interest in a fair and efficient tax system. Having such a system depends on policy-makers being able to understand how proposed changes in laws pertaining to the individual income tax will affect State tax revenues and how different groups of taxpayers will be impacted by the proposed law changes. More directly, the development of the individual income tax micro-simulation model will allow legislative and executive branch staff to respond more rapidly and provide better information to policy-makers.

c. Citizen Impact

Summarize how the project leads to a more informed citizenry, facilitates accountability, and encourages participatory democracy. If this is an extension of another project, what has been the adopted rate of Iowa's citizens or government employees with the preceding project?

Response:

Currently, the State does not have the ability to accurately identify how different groups of taxpayers will be affected by proposed law changes that pertain to the individual income tax. In order for taxpayers to be able to communicate their positions on proposed law changes to Legislators and the Governor, accurate information on the potential impacts of those changes must be available. The individual income tax is the States largest source of revenue accounting for almost 50% of the General Fund budget. Thus, knowledge of how this revenue source will be impacted by proposed law changes affects every service the State provides to its citizens.

d. Public Health and/or Safety

Explain requirements or impact on the health and safety of the public.

Response:

[This section to be scored by application evaluator.]

Evaluation (10 Points Maximum)

- Minimally improves Customer Service (0-3 points).
- Moderately improves Customer Service (4-6 points).
- Significantly improves Customer Service (7-10 points).

[This section to be scored by application evaluator.]

Evaluation (15 Points Maximum)

- Minimally directly impacts Iowa citizens (0-5 points).
- Moderately directly impacts Iowa citizens (6-10 points).
- Significantly directly impacts Iowa citizens (11-15 points).

F. Process Reengineering

Provide a pre-project or pre-expenditure (before implementation) description of the impacted system or process. Be sure to include the procedures used to administer the impacted system or process and how citizens interact with the current system.

Response:

Currently, proposed changes to the States individual income tax statutes are evaluated by having Department of Revenue staff write ad hoc computer programs that are run on the ITD mainframe computer. Often the amount of time available to write the programs and evaluate results is very short. In addition, resource conflicts with other users of the ITD mainframe often impedes the ability to complete the analysis as rapidly as desired by policy-makers. Consequently, it is often not possible to do thorough analysis of proposed changes to State law. For proposed federal law changes the best Department staff is generally able to do is estimate Iowas share of proposed changes. This approach allows "ballpark" estimates of aggregate impacts to Iowa taxpayers and State revenues to be made, but this approach does not allow an evaluation of impacts on different groups of taxpayers.

Provide a post-project or post-expenditure (after implementation) description of the impacted system or process. Be sure to include the procedures used to administer the impacted system or process and how citizens will interact with the proposed system. In particular, note if the project or expenditure makes use of information technology in reengineering traditional government processes.

Response:

The existence of an individual income tax micro-simulation model will allow the analysis of a wider variety of proposed federal and State law changes on State tax revenues. In addition, such a model will allow the

identification of "winners" and "losers" under different proposals. Third, since the model will be designed to use a blended sample of tax return data legislative staff will be able to have use of the model without compromising the confidentiality of individual taxpayer information. Fourth, the model will be designed to run on desktop computers. Thus, the amount of time required to provide analysis results to policy-makers should be reduced significantly.

[This section to be scored by application evaluator.]

Evaluation (10 Points Maximum)

- Minimal use of information technology to reengineer government processes (0-3 points).
- Moderate use of information technology to reengineer government processes (4-6 points).
- Significant use of information technology to reengineer government processes (7-10).

[This section to be scored by application evaluator.]

Evaluation (5 Points Maximum)

- The timeline contains several problem areas (0-2 points)
- The timeline seems reasonable with few problem areas (3-4 points)
- The timeline seems reasonable with no problem areas (5)

H. Funding Requirements

On a fiscal year basis, enter the estimated cost by funding source: Be sure to include developmental costs and ongoing costs, such as those for hosting the site, maintenance, upgrades, ...

	FY05		FY06		FY07	
	Cost(\$)	% Total Cost	Cost (\$)	% Total Cost	Cost (\$)	% Total Cost
State General Fund	\$179,000	32%	\$0	0%	\$0	0%
Pooled Tech. Fund /IowAccess Fund	\$372,000	68%	\$0	0%	\$0	0%
Federal Funds	\$0	0%	\$0	0%	\$0	0%
Local Gov. Funds	\$0	0%	\$0	0%	\$0	0%
Grant or Private Funds	\$0	0%	\$0	0%	\$0	0%
Other Funds (Specify)	\$0	0%	\$0	0%	\$0	0%
Total Project Cost	\$551,000	100%	\$0	100%	\$0	100%
Non-Pooled Tech. Total	\$179,000	32%	\$0	0%	\$0	0%

[This section to be scored by application evaluator.]

Evaluation (10 Points Maximum)

- The funding request contains questionable items (0-3 points)
- The funding request seems reasonable with few questionable items (4-6 points)
- The funding request seems reasonable with no problem areas (7-10)

I. Scope

Is this project the first part of a future, larger project?
☐ YES (If "YES", explain.) ☒ NO, it is a stand-alone project.

Explanation:

Is this project a continuation of a previously begun project?
☐ YES (If "YES", explain.)

Explanation:

J. Source of Funds

On a fiscal year basis, how much of the total project cost (\$ amount and %) would be absorbed by your agency from non-Pooled Technology and/or IOWAccess funds? If desired, provide additional comment / response below.

Response:

For each of the two fiscal years, approximately one-third of total project cost will be absorbed within the Department of Revenue's and the Legislative Fiscal Bureau's (Legislative Services Agency) normal budgets.

[This section to be scored by application evaluator.]

Evaluation (5 Points Maximum)

- 0% (0 points)
- 1%-12% (1 point)
- 13%-25% (2 points)
- 25%-38% (3 points)
- 39%-50% (4 points)
- Over 50% (5 points)

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Section II: Financial Analysis

A. Project Budget Table

It is necessary to estimate and assign a useful life figure to each cost identified in the project budget. Useful life is the amount of time that project related equipment, products, or services are utilized before they are updated or replaced. In general, the useful life of hardware is three (3) years and the useful life of software is four (4) years. Depending upon the nature of the expense, the useful life for other project costs will vary between one (1) and four (4) years. On an exception basis, the useful life of individual project elements or the project as a whole may exceed four (4) years. Additionally, the ROI calculation must include all new annual ongoing costs that are project related.

The Total Annual Prorated Cost (State Share) will be calculated based on the following equation:

$$\left[\left(\frac{\text{Budget Amount}}{\text{Useful Life}} \right) \times \% \text{ State Share} \right] + (\text{Annual Ongoing Cost} \times \% \text{ State Share}) = \text{Annual Prorated Cost}$$

Budget Line Items	Budget Amount (1st Year Cost)	Useful Life (Years)	% State Share	Annual Ongoing Cost (After 1st Year)	% State Share	Annual Prorated Cost
Agency Staff	\$304,000	1	100.00%	\$63,000	100.00%	\$367,000
Software	\$0	4	0.00%	\$0	0.00%	\$0
Hardware	\$0	3	0.00%	\$0	0.00%	\$0
Training	\$0	4	0.00%	\$0	0.00%	\$0
Facilities	\$0	1	0.00%	\$0	0.00%	\$0
Professional Services	\$246,000	4	100.00%	\$0	100.00%	\$61,500
ITD Services	\$0	4	0.00%	\$0	0.00%	\$0
Supplies, Maint, etc.	\$1,000	1	100.00%	\$500	100.00%	\$1,500
Other	\$0	1	0.00%	\$0	0.00%	\$0
Totals	\$551,000	---	---	\$63,500	---	\$430,000

C. Tangible and/or Intangible Benefits

Respond to the following and transfer data to the ROI Financial Worksheet as necessary:

1. Annual Pre-Project Cost - This section should be completed only if state government operations costs are expected to be reduced as a result of project implementation. **Quantify actual state government direct and indirect costs** (personnel, support, equipment, etc.) associated with the activity, system or process prior to project implementation.

Describe Annual Pre-Project Cost:

Currently, the development of the database used for the analysis of legislative proposals, the writing of programs, and the summarization and analysis of model results requires 1.25 FTEs of staff time with the Dept. of Revenue and 0.25 FTE of staff time within the Legislative Fiscal Bureau. Programs are developed and executed on the ITD mainframe. A database containing all State and federal tax return data for a single tax year, approximately 13 gb in size, is maintained on DASD for approximately 6 months per year.

Quantify Annual Pre-Project Cost:

	State Total
FTE Cost (salary plus benefits):	\$126,000.00
Support Cost (i.e. office supplies, telephone, pagers, travel, etc.):	\$1,000.00
Other Cost (expense items other than FTEs & support costs, i.e. indirect costs if applicable, etc.):	\$0.00
Total Annual Pre-Project Cost:	\$197,000.00

2. Annual Post-Project Cost - This section should be completed only if state government operations costs are expected to be reduced as a result of project implementation. **Quantify actual state**

government direct and indirect costs (personnel, support, equipment, etc.) associated with the activity, system or process after project implementation.

Describe Annual Post-Project Cost:

The proposed micro-simulation model would have a user friendly graphic user interface and be designed to run on a desktop PC. Policy options would be pre-programmed into the model eliminating the need in most cases for the development of ad hoc policy option specific models. The model would use a sample of tax returns as its database rather than the total population of State and federal return data. Model code would be optimized to reduce run times.

Quantify Annual Post-Project Cost:

	State Total
FTE Cost (salary plus benefits):	\$63,000.00
Support Cost (i.e. office supplies, telephone, pagers, travel, etc.):	\$500.00
Other Cost (expense items other than FTEs & support costs, i.e. indirect costs if applicable, etc.):	\$0.00
Total Annual Post-Project Cost:	\$63,500.00

3. Citizen Benefit - Quantify the estimated annual value of the project to Iowa citizens. This includes the "hard cost" value of avoiding expenses ("hidden taxes") related to conducting business with State government. These expenses may be of a personal or business nature. They could be related to transportation, the time expended on or waiting for the manual processing of governmental paperwork such as licenses or applications, taking time off work, mailing, or other similar expenses. As a "rule of thumb," use a value of \$10 per hour for citizen time.

Describe savings justification:

Transaction Savings

Number of annual online transactions:	0
Hours saved/transaction:	0
Number of Citizens affected:	0
Value of Citizen Hour	0
Total Transaction Savings:	\$0
Other Savings (Describe) Poorly conceived tax law will result in higher compliance costs for individual taxpayers and small business. Poorly conceived tax policy often results in frequent law and regulation changes. This will require form changes. It also will require taxpayers and tax practitioners to spend time learning the new law, to change record keeping practices, and to update software. Even at \$1 of cost per taxpayer this amounts to over \$1.25 million per year.	\$1,250,000
Total Savings:	\$1,250,000

4. Opportunity Value/Risk or Loss avoidance - Quantify the estimated annual non-operations benefit to State government. This could include such items as qualifying for additional matching funds, avoiding the loss of matching funds, avoiding program penalties/sanctions or interest charges, avoiding risks to health/security/safety, avoiding the consequences of not complying with State or Federal laws, providing enhanced services, avoiding the consequences of not complying with enterprise technology standards, etc.

Response:

(10) Tax policy changes that result in inadequate funding for education, particularly university research in the areas of science and technology, will impede the growth of new high technology businesses in the

State and result in an inadequately trained workforce. (9) Confusing or excessively burdensome individual income taxes may also impede business development by putting Iowa at a competitive disadvantage relative to attracting new firms to the State. (5) Frequent changes in tax policy and levels of State assistance to local governments complicate the budgeting process. Also, it often results in wasted resources when local governments and school districts hire and then layoff personnel or have to scale back and extend the time schedule for capital improvement or technology investment projects. (5) Poorly conceived tax policy can adversely affect the State's debt rating and raise the cost of borrowing.

5. Benefits Not Readily Quantifiable - List and summarize the overall non-quantifiable benefits (i.e., IT innovation, unique system application, utilization of new technology, hidden taxes, improving the quality of life, reducing the government hassle factor, meeting a strategic goal, etc.).

Response:

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ROI Financial Worksheet	
A. Total Annual Pre-Project cost (State Share from Section II C1):	\$197,000
B. Total Annual Post-Project cost (State Share from Section II C2):	\$63,500
State Government Benefit (= A-B):	\$133,500
Annual Benefit Summary:	\$133,500
State Government Benefit:	\$133,500
Citizen Benefit:	\$1,250,000
Opportunity Value or Risk/Loss Avoidance Benefit:	\$0
C. Total Annual Project Benefit:	\$1,383,500
D. Annual Prorated Cost (From Budget Table):	\$430,000
Benefit / Cost Ratio: (C/D) =	3.22
Return On Investment (ROI): ((C-D) / Requested Project Funds) * 100 =	384.48%

[This section to be scored by application evaluator.]

Evaluation (25 Points Maximum)

- The financial analysis contains several questionable entries and provides minimal financial benefit to citizens (0-8 points).
- The financial analysis seems reasonable with few questionable entries and provides a moderate financial benefit to citizens (9-16 points).
- The financial analysis seems reasonable with no problem areas and provides maximum financial benefit to citizens (17-25).

Note: For projects where no State Government Benefit, Citizen Benefit, or Opportunity Value or Risk/Loss Avoidance Benefit is created due to the nature of the project, the Benefit/Cost Ratio and Return on Investment values are set to Zero.

Appendix A. Auditable Outcome Measures

For each of the following categories, list the auditable metrics for success after implementation and

identify how they will be measured.

1. Improved customer service

Currently the minimum amount of time required to write program language, run the program, and develop a presentation of program output is about 2 hours. A performance measure will be the change in the amount of time required to respond to a typical analysis request.

2. Citizen impact

Currently, little or know information regarding how specific groups of taxpayers will be impacted by proposed legislation is available. A measurable outcome of the project will be the provision of taxpayer impact information for each legislative proposal that is analyzed.

3. Cost Savings

Cost savings per year will equal the avoidance of the cost associated with hiring an additional full-time fiscal and policy analyst and associated support costs, or between \$80,000 and \$100,000 per year.

4. Project reengineering

The entire project represents a reengineering of the way State and federal individual income tax legislation is analyzed. This includes the redesign of databases, moving from a mainframe to PC environment, and making the analysis tool available to Legislative staff.

5. Source of funds (Budget %)

see section I (H)

6. Tangible/Intangible benefits

Policy-makers will have better information with which to make decision regarding State tax policy. Taxpayers will be better informed regarding how they will be impacted by proposed changes in federal and State tax policy.

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